

Resident Personal Income Tax

Federal line number references were correct when these forms went to print. The federal line number references may have changed since then. If you are unable to decide the proper line to use, please contact one of the Taxpayer Information and Assistance help numbers:

Phoenix(602) 255-3381
Tucson(520) 628-6421
Other Arizona areas1-800-352-4090
Form Orders(602) 542-4260
Forms by Fax (602) 542-3756
Recorded Tax Information
Phoenix(602) 542-1991
Other Arizona areas1-800-845-8192
Hearing impaired TDD user
Phoenix(602) 542-4021
Other Arizona areas1-800-397-0256

Do You Need To File a Return?

A. Filing Status and Income. Your filing status and income determine if you must file an Arizona income tax return. To get a refund of any Arizona income tax withheld, you must file a return.

Gross income is gross income defined under the Internal Revenue Code less income included in gross income that is excluded from Arizona taxation. Income excluded from Arizona taxation may include items such as interest from U.S. Government obligations, social security retirement benefits, and benefits received under the Railroad Retirement Act.

Filing Status and Income Chart

The following rules are for all Arizona taxpayers.

You must file if you are:	and your gross income is at least:	or your Arizona adjusted gross income is at least:
Single	\$15,000	\$ 5,500
Married filing jointly	\$15,000	\$ 11,000
Married filing separately	\$15,000	\$ 5,500
Unmarried head of household	\$15,000	\$ 5,500

Your Arizona adjusted gross income is found on line 22 of Arizona Form 140.

Residents of Arizona must report their income from **all** sources, including out-of-state income.

B. Residency Status. A resident is anyone domiciled in Arizona. Domicile is the place where you have your permanent home. It is where you intend to return if you are living or working temporarily in another state or country.

Residents, including military personnel, who leave Arizona for a temporary period are residents during their absence. Residents are taxable on all of their income no matter where earned.

For more information on determining residency for Arizona income tax purposes, see Arizona Department of Revenue Income Tax Procedure ITP 92-1. To get a copy of this procedure, call one of the help numbers listed on this page.

C. Military Personnel. If you were an Arizona resident when you entered the military, you continue to be an Arizona resident regardless of where you are stationed. You continue to be an Arizona resident unless you establish a new domicile. As an Arizona resident, you are subject to Arizona income taxes on all of your income (including your military pay). If stationed in Arizona on military orders and not an Arizona resident, Arizona does not tax your military pay. If you earn other income in Arizona, that income is taxable by Arizona. Use Form

140NR, *Nonresident Personal Income Tax Return*, to report this income.

For more information, see Arizona Department of Revenue brochure, Pub 704, titled *Taxpayers in the Military*. To get a copy of this brochure, call one of the help numbers listed on this page.

D. American Indians. You must file an Arizona income tax return if you meet the Arizona filing requirements unless all of the following apply to you.

1. You are an enrolled member of an Indian tribe.
2. You live on the reservation established for that tribe.
3. You earned all of your income on that reservation.

For more information, see Arizona Department of Revenue Income Tax Ruling ITR 91-3. To get a copy of this ruling, call one of the help numbers listed on this page.

E. Spouses of American Indians. See Arizona Department of Revenue Income Tax Ruling ITR 91-3 if you are a non-Indian married to an Indian described in paragraph D above. Also see Arizona Department of Revenue Income Tax Ruling ITR 91-3 if you are a non-enrolled Indian married to an Indian described in paragraph D above. To get a copy of one of these rulings, call one of the help numbers listed on this page.

F. Part-Year Residents. You must use Form 140PY to report any income earned while an Arizona resident. A part-year resident is anyone who moves into or out of Arizona during the year. See Form 140PY instructions.

G. Nonresidents. You must use Form 140NR to report any income derived from Arizona sources.

H. Deceased Taxpayer. When a taxpayer dies during the year, the surviving spouse or personal representative may have to file a final return. Use the form the taxpayer would have used.

Enter the word "deceased" after the decedent's name in the address section of the form. Also enter the date of death after the decedent's name. The surviving spouse may file a joint return with the deceased taxpayer. If you are filing a joint return, write "filing as surviving spouse" in the area for the deceased spouse's signature. Include the deceased taxpayer's income up to the date of death and your income for the entire year. ***If the booklet was mailed to you, do not use the label.***

If requesting a refund, attach Form 131, *Claim for Refund on Behalf of Deceased Taxpayer*, to the front of the return. It may be necessary to file fiduciary or estate tax returns also. Call the Arizona Department of Revenue at (602) 542-4022 for details on filing a fiduciary or estate tax return.

I. Parents Electing to Claim Certain Unearned Income of Their Children on Their Federal Income Tax Return Under IRC 1 (i) (7). When a child's unearned income is included in the parent's federal adjusted gross income, that same income must be included in the parent's Arizona taxable income. The child should not file an Arizona income tax return.

J. Tax Exempt Interest Income

If you received tax exempt interest from municipal bonds, attach a schedule listing the payors and the amount received from each payor. You may also want to attach documentation substantiating the amounts received from Arizona municipal bonds that are exempt from Arizona income tax. Documentation may be items such as bank statements, brokerage statements, etc. Be sure you add the amount from non-Arizona municipal bonds to your income on line B4.

When Should You File?

Your 1995 tax return is due no later than midnight, April 15, 1996.

File your return as soon as you can after January 1, but no later than April 15, 1996. To avoid penalties and interest, the U.S. Postal Service must postmark your return by April 15, 1996.

If you know you will not be able to file on time, you may request an extension. ***An extension does not extend the time to pay your income tax. Failure to pay at least 90 percent of the tax due by the original due date will result in a penalty.*** Beginning April 16, Arizona charges interest on any unpaid tax. The extension underpayment penalty is one-half of one percent (.005) of the tax not paid for each 30 day period or fraction of a 30 day period. The extension underpayment penalty cannot exceed 25 percent of the unpaid tax.

To get a filing extension, you can either:

1. Apply for a state extension - (Form 204). To request a filing extension for only your Arizona return, file Arizona Form 204 by April 15. See Form 204 for details.
2. Use your federal extension - (Federal Form 4868 or 2688). Arizona will accept your federal extension for the same period. Attach a copy of the federal extension to the front of your return. The IRS must have approved the federal extension granted on federal Form 2688. However, if you must make a payment, you must use Arizona Form 204.

Attach a copy of your extension to the front of your return when you file.

Nonresident Aliens

Nonresident aliens having federal income tax returns due on June 15 must file Arizona tax returns by April 15.

To file an Arizona return at the same time the federal return is due, file for an extension by April 15.

At least 90 percent of your tax liability is due by April 15. Those filing for a federal four-month extension must file an Arizona extension for both the four-month and two-month extensions. See Form 204 in this booklet for extension filing details.

When you do not file your Arizona return or extension by April 15, you may incur interest and penalties. Late filing and late payment penalties and interest will apply to the unpaid tax liability.

Penalties and Interest

A. Late Filing Penalty. The late filing penalty is 5 percent of the tax found to be remaining due for each month or fraction of a month the return is late. This penalty cannot exceed 25 percent of the tax found to be remaining due.

B. Extension Underpayment Penalty. The department imposes this penalty if you do not pay 90 percent of the tax liability shown on your return filed under an extension by the return's original due date. The department also imposes this penalty if you do not attach the extension to your return when you file. The extension underpayment penalty is one-half of one percent (.005) of the tax not paid for each 30 day period or fraction of a 30 day period. The department imposes this penalty from the original due date of the return until you pay the tax. The extension underpayment penalty cannot exceed 25 percent of the unpaid tax.

C. Late Payment Penalty. The department imposes the late payment penalty if you do not pay the tax by the time prescribed for its payment. The late payment penalty is 10 percent of the tax not paid within the time prescribed for its payment.

NOTE: *If you are subject to two or more of the above three penalties, the maximum combined penalty cannot exceed 25 percent.*

D. Interest. The department charges interest on any tax not paid by the due date even if you have an extension. The department charges interest from the original due date to the date of payment. The Arizona rate of interest is the same as the federal rate.

Contact one of the help numbers listed on page 1 of these instructions for the current interest rate.

E. Estimated Penalty. The department imposes the underpayment of estimated tax penalty on any late payment or underpayment of a required installment of estimated tax. Refer to Arizona Form 221 for further details.

Do You Need To Make Estimated Payments in 1996?

You must make Arizona estimated income tax payments during 1996 if either of the following apply.

1. You reasonably expect your Arizona gross income will exceed \$75,000 in 1996.
2. Your Arizona gross income in 1995 was greater than \$75,000.

Individuals failing to make the required estimated payments are subject to a penalty. There is also interest on any estimated tax payment which is late or underpaid.

In projecting current Arizona gross income, you must use ordinary business care and prudence in determining if estimated tax payments are required.

Individuals not required to make Arizona estimated income tax payments may choose to make them.

For more information, see Arizona Forms 140ES and 221. Also see Arizona Department of Revenue Income Tax Ruling ITR 92-1. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

How do You Amend a Return?

To make a change in your return for 1995 or prior years, file an Arizona Form 140X, *Individual Amended Return*. **Do not** file a new return for the year you are correcting. Generally, you have four years to amend a return to claim a refund.

If the Internal Revenue Service changes your federal taxable income, you must file an Arizona Form 140X for that year. Attach a complete copy of the IRS agent's report. If there are any changes to your federal taxable income, you must amend your Arizona return within 90 days of the change.

Line-by-Line Instructions for Completing Arizona Form 140

Tips for Preparing Your Return:

- Complete your return using black ink.
- You may round dollar amounts to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents, round down.
- When asked to provide your own schedule, attach a separate sheet with your name and social security number at the top. Attach your own schedules to the back of your return.
- Complete your federal return before you start your Arizona return.
- Include your home telephone number and a daytime telephone number, if different.
- If filing a fiscal year return, fill in the period covered in the space provided at the top of the form.

Entering Your Name, Address, and Social Security Number

Lines 1, 2, and 3 -

If your booklet has a pre-addressed label on the cover, use that label if all the information is correct. **Do not use the label if any information is incorrect.**

If there is no correct pre-addressed label, print or type your name, address, and social security number in the space provided. If filing a joint return, enter both social security numbers in the same order as your first names. If you and your spouse have different last names, separate your last names with "and". Put them in the same order as your first names and social security numbers.

The department issues refunds under both first name initials and the last name listed first on the return. For a deceased taxpayer, see page 1 of the instructions.

Use your current home address. The department will send any refund or correspondence to that address.

NOTE: *Make sure your social security number is correct and listed in the same order every year if filing jointly.*

All returns, statements and other documents filed with the Department of Revenue require a taxpayer identification number (TIN). The TIN is either a correct social security number or, for a business, the federal employer identification number. Paid tax preparers must also include their TIN on forms where requested. Taxpayers and paid preparers failing to include the proper TIN may be subject to a penalty. Please check the return to be sure that all required identification numbers are accurate and written clearly. Missing, incorrect, or unclear identification numbers may cause delays in processing the returns. If you are filing jointly, enter your social security numbers in the same order every year. *If your name appears first on the return, make sure your social security number is the first number listed.*

Determining Your Filing Status

The filing status used on your federal return may be different from that used on your Arizona return. Use this section to determine your correct filing status. Check the appropriate box (4 through 7) on the front of Form 140.

Line 4 Box - Married Filing a Joint Return

You may use this filing status if married as of December 31, 1995. It does not matter whether or not you were living with your spouse. You may use this filing status if your spouse died during 1995 and you did not remarry in 1995. See "Deceased Taxpayer" section for more information.

The Arizona Form 140 is for full year residents only. You may not file a joint Arizona income tax return on Form 140 if any of the following apply.

1. Your spouse is a nonresident alien (citizen of and living in another country).
2. Your spouse is a resident of another state.

3. Your spouse is a part-year Arizona resident.

If filing a joint return with your nonresident spouse, you may file a joint return using Form 140NR.

If filing a joint return with your part-year resident spouse, you may file a joint return using Form 140PY. See Form 140PY instructions.

For more information on filing a joint return with your part-year resident or nonresident spouse, see Arizona Department of Revenue Income Tax Ruling ITR 95-2. To get a copies of this information, call one of the help numbers listed on page 1 of these instructions.

Line 5 Box - Unmarried Head of Household

You may use this filing status if you meet all the following.

1. You were either single, divorced, or legally separated on December 31, 1995.

NOTE: Arizona law is different from federal law. You cannot file unmarried head of household if you are an abandoned spouse or married living apart.

2. You have a qualified dependent you are entitled to claim as an exemption. See the instructions for the line 10 box to find a list of those dependents who qualify.

NOTE: Arizona law is different from federal law. You cannot use this filing status when you cannot claim the dependent as an exemption.

3. Both of the following conditions must apply for your taxable year.

A. You maintained as your home a household which was the dependent's main home.

B. You furnished over one-half of the cost of maintaining that household.

If you qualify for unmarried head of household status, check the line 5 box. Enter your dependent's name in the space provided.

Line 6 Box - Married Filing Separately

Use this filing status if married on December 31, 1995, and filing a separate Arizona return.

Check the line 6 box and enter your spouse's name and social security number in the space provided.

Arizona is a community property state. Separate Arizona income tax returns must reflect one-half of the community income from all sources plus any separate income.

You must account for community deductions and credits on the same basis as community income. Both filers must either itemize or not itemize. One may not claim a standard deduction while the other itemizes deductions. If you and your spouse support a dependent child from community income, either you or your spouse may claim the dependent. Both of you cannot claim the same dependent on both returns.

For more information on how to file separate Arizona income tax returns, see Arizona Department of Revenue Income Tax Rulings, ITR 93-18 and ITR 93-19. To get a copy of these tax rulings, call one of the help numbers listed on page 1 of these instructions.

If filing a separate Arizona income tax return with your nonresident spouse, see Arizona Department of Revenue Income Tax Ruling, ITR 93-20. To get a copy of this tax ruling, call one of the help numbers listed on page 1 of these instructions.

Line 7 Box - Single

Use this filing status if unmarried or legally separated on December 31, 1995, and you cannot use head of household. Legally separated means under a decree of divorce or of separate maintenance.

Totaling Your Exemptions

Write the number of exemptions you are claiming in boxes 8, 9, and 10. Do not put a check mark. You may lose the exemption if you put a check mark in these boxes. You may lose the dependent exemption if you omit names, relationships, and social security numbers on page 2, Part A.

Line 8 Box - Age 65 or Over

Write "1" in box 8 if you or your spouse were 65 or older in 1995. Write "2" in box 8 if both you and your spouse were 65 or older in 1995.

Line 9 Box - Blind

Write "1" in box 9 if you or your spouse are totally or legally blind. Write "2" in box 9 if both you and your spouse are totally or legally blind. To qualify as legally blind, you must attach a physician's letter stating one of the following.

1. Your vision is 20/200 or poorer with corrective lenses.
2. Your field of vision is 20 degrees or less.

Line 10 Box - Dependents

Before totaling your dependent exemptions, you must complete Part A on page 2 of your return.

NOTE: Arizona law is different from federal law. A divorced parent must furnish over one-half of a dependent's support to claim a dependent as an exemption. A divorced parent cannot claim a dependent without meeting the support test.

Line A1 - Dependents Related to You

List as dependents any of the following if you provided more than half of their support during 1995:

- child, stepchild, adopted child
- grandchild
- son-in-law, daughter-in-law, brother-in-law, sister-in-law
- parent, grandparent, mother-in-law, father-in-law
- brother, sister
- stepparent, stepbrother, stepsister

If related by blood:

- uncle, aunt, nephew, niece

The following groups do not qualify as dependents:

- yourself, spouse
- cousins, foster children
- citizens of any country other than Canada and Mexico who do not live in the U.S.
- roommate, non-relatives

Support includes:

- food, medical and dental care, fair rental value of lodging
- cash contributions, recreation, education, furniture
- appliances and cars bought for a dependent's transportation

You may claim an exemption for a dependent who is born or dies during the year if he or she meets the test above.

Write the dependent(s) name, relationship, and social security number on line(s) A1. You may lose the exemption if you do not furnish this information.

Line A2 - Dependents Age 65 or Over

List here any Arizona resident who is 65 or over if, in 1995, you did one of the following.

1. Paid more than one-fourth of the cost of keeping this person in an Arizona nursing or licensed supervisory care home. Your cost must be more than \$800.
2. Paid more than \$800 for either Arizona home health care or other medical costs for the person.

Tax Tip: *You may claim this exemption even if the person is a non-relative.*

Do not list any person on line A2 whom you have already listed on line A1.

Line A3 - Total Dependents

Enter the total number of persons listed on lines A1 and A2. Enter the same number on the front of the return in box 10.

It will be easier to complete your return if you now complete the rest of page 2.

Determining Additions to Income**Line B4 - Non-Arizona Municipal Interest**

Enter any interest income from non-Arizona municipal bonds that you did not include as income on your federal return. Also see "Tax Exempt Interest Income" on page 2 of these instructions.

NOTE: *You may not reduce this addition by any interest or other related expenses incurred to purchase or carry the obligation.*

Line B5 - Early Withdrawal of Arizona, County, City, or School Retirement System Contributions

If you meet all the following, you must enter an amount here.

1. You left your job with the State of Arizona or an Arizona county, city, or school district for reasons other than retirement.
2. When you left, you took out the contributions you had made to the retirement system while employed.
3. You had previously deducted these contributions on your Arizona income tax returns.
4. You did not include these contributions in your federal adjusted gross income this year.

If you meet all these tests, you must report as income those contributions previously deducted on your prior years' Arizona tax returns.

For more information, see Arizona Department of Revenue Income Tax Ruling ITR 93-7. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

Line B6 - Ordinary Income Portion of Lump Sum Distributions Excluded on Your Federal Return

Use line B6 if you use federal 5 or 10 year averaging for lump-sum distributions from your pension or profit-sharing plan.

Arizona law does not provide for 5 or 10 year averaging. Enter the distribution amounts treated as ordinary income on your federal return. If you choose to treat the capital gain portion of the distribution as ordinary income, you must also include that amount.

For more information, see Arizona Department of Revenue Income Tax Ruling ITR 93-5. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

Line B7 - Agricultural Water Conservation Expenses

If you take the agricultural water conservation system credit, you must add the amount of agricultural water conservation expenses that you deducted under the Internal Revenue Code. If you take this credit, enter the amount of agricultural water conservation expenses you deducted in computing your federal adjusted gross income.

Line B8 - Other Additions to Income

Use line B8 if any of the special circumstances below applies. Attach your own schedule to the back of your return explaining any amounts entered here.

You may either add or subtract items A through C below (line B8 or C18, respectively) depending on your situation.

A. Pension Adjustments

Use this adjustment if both of the following apply.

1. Arizona taxed your pension for years before 1979.
2. You reported that pension on your federal return using the percentage exclusion method.

Pension Adjustment Worksheet — Line B8

Follow these steps to calculate the adjustment:

Worksheet (Keep for your records.)

- | | |
|--|-------|
| 1. Your contribution to annuity. | _____ |
| 2. Pension amount received in prior years. | _____ |
| 3. Remainder of cost (line 1 minus line 2 but not less than zero). | _____ |
| 4. Pension amount received this year. | _____ |
| 5. Amount from line 3. | _____ |
| 6. Subtract line 5 from line 4 (but not less than zero). | _____ |
| 7. Enter the pension amount taxable on your federal return. | _____ |
| 8. Subtract line 7 from line 6. | _____ |

Do not use this adjustment if you reported your pension income as fully taxable on your federal return. Do not use this adjustment if you reported your pension income on your federal return under the "three-year-rule".

If line 8 is more than zero, enter the line 8 amount as an addition to income on line B8.

If line 7 is more than line 6, enter the difference as a subtraction from income on line C18.

B. Married Persons Filing Separate Returns

If you file separate returns for both federal and Arizona purposes, you will not have an adjustment here. Separate federal returns should already reflect Arizona's community property provisions. The separate Arizona returns will begin with the federal adjusted gross income reported on those federal returns.

If you file a joint federal return and separate Arizona returns, you must adjust your Arizona return. Each Arizona return must reflect one-half of the community income from all sources plus any separate income.

If you make an adjustment here, you must attach a schedule showing your calculations to your Arizona return.

If you itemize deductions, you must account for community deductions and credits on the same basis as community income.

C. Partnership Income

Use this adjustment if your Arizona Form 165, Schedule K-1, shows a difference between federal and state distributable income.

If the difference reported on your Arizona Form 165, Schedule K-1, is a positive number, enter that difference as an addition. Enter the addition on line B8.

If the difference reported on your Arizona Form 165, Schedule K-1, is a negative number, enter that difference as a subtraction. Enter the subtraction on line C18.

D. Estate or Trust Income

Enter on line B8 the amount from Arizona Form 141, Schedule K-1, line 3. For Arizona purposes, this is your share of the distributive income.

If you make an entry here, you must also make an entry on line C18, Other Subtractions. Subtract trust or estate income shown on your federal Form 1041, Schedule K-1, included in your federal adjusted gross income.

You must also add to Arizona gross income:

1. Your share of the estate's or trust's deductions allowed under the Internal Revenue Code.
2. Your share of excess deductions and loss carryovers allowed under the Internal Revenue Code as deductions to the beneficiary on termination of an estate or trust.

You must add the above deductions and loss carryovers to your Arizona

gross income only to the extent these items are included in computing your Arizona taxable income.

E. Net Operating Losses

Arizona does not have specific net operating loss provisions for individual taxpayers. Arizona conforms to the federal net operating loss provisions, including the carryback provisions. Generally, the amount of net operating loss deduction included in your federal adjusted gross income is the amount allowable for Arizona purposes. However, there are instances when the amount allowable for Arizona purposes may be different. You must adjust the amount of net operating loss deduction included in your federal adjusted gross income if the following apply.

1. You have already deducted any amount of the net operating loss included in your federal adjusted gross income for Arizona purposes.
2. The net operating loss was from a loss incurred from non-Arizona activities prior to becoming an Arizona resident.

If the above apply, enter the following on line B8.

1. The amount of net operating loss included in your federal adjusted gross income which you previously deducted for Arizona purposes.
2. The amount of net operating loss included in your federal adjusted gross income from losses incurred from non-Arizona activities prior to residency.

For information on deducting a net operating loss carryback, see Arizona Department of Revenue Income Tax Procedure ITP 94-1. To get a copy of this procedure, call one of the help numbers listed on page 1 of these instructions.

F. Items Previously Deducted for Arizona Purposes

Arizona statutes prohibit a taxpayer from deducting items more than once. However, under the operation of former Arizona law, you could deduct certain items in greater amounts for Arizona purposes than for federal purposes.

Investment interest and passive activity losses were such items. In some cases, you could have deducted such amounts in their entirety on the Arizona return. For federal purposes, the deduction for these items was limited, with the unused portions being carried forward and deducted in future years. Your Arizona return may include these previously deducted items because of the difference between the federal and former Arizona treatment. If your Arizona taxable income includes items previously deducted for Arizona purposes, you must add such amounts to your Arizona gross income.

G. Claim of Right Adjustment for Amounts Repaid in 1995

You must make an entry here if all of the following apply.

1. During 1995, you were required to repay amounts held under a claim of right.
2. The amount required to be repaid during 1995 was more than \$3,000.
3. You took a deduction for the amount repaid on your 1995 federal income tax return.

If the above apply, enter the amount deducted on your federal income tax return here.

For more information on the Arizona claim of right provisions, see Arizona Department of Revenue Individual Income Tax Procedure ITP 95-1.

H. Claim of Right Adjustment for Amounts Repaid in Prior Taxable Years

You must make an entry here if all of the following apply.

1. During a year prior to 1995 you were required to repay amounts held under a claim of right.
2. You computed your tax for that prior year under Arizona's claim of right provisions.
3. A net operating loss or capital loss was established due to the repayment made in the prior year.

4. You are entitled to take that net operating loss or capital loss carryover into account when computing your 1995 Arizona taxable income.

5. The amount of the loss carryover included in your federal income is more than the amount allowed to be taken into account for Arizona purposes.

Enter the amount by which the loss carryover included in your federal adjusted gross income is more than the amount allowed for the taxable year under Arizona law.

I. Summer School and Jobs Program Wages

Enter the amount of wages paid to students enrolled in the 1995 summer school and jobs program that is equal to the amount of the tax credit taken by the taxpayer.

J. Other Adjustments

Other special adjustments may be necessary for depreciation or amortization of pollution control devices, child care facilities, recycling materials equipment, or other items. Call one of the help numbers listed on page 1 of the instructions for more information on these adjustments.

Line B9 - Total Additions

Add lines B4 through B8. Enter the total on line B9 and on the front of your return on line 12.

Determining Subtractions From Income

You may only subtract those items for which statutory authority exists. Without such authority you cannot take a subtraction. If you have any questions concerning subtractions from income, call one of the help numbers listed on page 1 of these instructions.

NOTE: *You may not subtract any amount which is allocable to income excluded from your Arizona taxable income.*

Line C10 - Interest on U.S. Obligations

Enter the amount of interest income from U.S. Government obligations included as income on your federal return. U.S. Government obligations include obligations such as savings bonds and treasury bills. You cannot deduct any interest or other related expenses incurred to purchase or carry the obligation. If such expenses are included in your Arizona gross income, you must reduce the subtraction by such expenses. If you are itemizing deductions on your Arizona return, you must exclude such expenses from the amount deducted.

NOTE: *Do not subtract interest earned on FNMA or GNMA bonds since this interest is taxable by Arizona.*

For more information, see the department's *Guidelines for Exempt Securities*, G 91-4. To get a copy of this guideline, call one of the help numbers listed on page 1 of these instructions.

Line C11 - Exclusion for U.S. Government, Arizona State or Local Government Pensions

If you receive pension income from any of the sources listed below, subtract the amount you received or \$2,500, whichever is less. Include only the amount you reported as income on your federal return. If both you and your spouse receive such pension income, each spouse may subtract the amount received or \$2,500, whichever is less.

Public pensions from the following sources qualify for this subtraction:

- The United States Government Service Retirement and Disability Fund
- The United States Foreign Service Retirement and Disability System
- Retired or retainer pay of the uniformed services of the United States
- Any other retirement system or plan established by federal law

NOTE: *This applies only to those retirement plans authorized and enacted into the U.S. Code. This does not apply to a retirement plan that is only regulated by federal law (i.e., plans which must meet certain federal criteria to be qualified plans).*

- The Arizona State Retirement System
- The Arizona State Retirement Plan
- The Corrections Officer Retirement Plan
- The Public Safety Personnel Retirement System
- The Elected Official's Retirement Plan
- A retirement plan established for employees of a county, city, or town in Arizona
- The optional retirement program established by the Arizona Board of Regents under Arizona Revised Statutes

NOTE: *Public retirement pensions from states other than Arizona do not qualify for this subtraction.*

Line C12 - Arizona Lottery Winnings

You may subtract all winnings received in 1995 related to an Arizona lottery prize won before March 22, 1983. You may subtract up to \$5,000 of winnings received in 1995 for Arizona lottery prizes won after March 21, 1983.

If you subtract Arizona lottery winnings here, you may have to adjust the amount of gambling losses claimed as an itemized deduction. See "Allowable Arizona Itemized Deductions."

Line C13 - Social Security Benefits or Railroad Retirement Benefits

Enter the benefits received from the Railroad Retirement Board under the Railroad Retirement Act included on line 16b of your federal return. Also enter the taxable social security benefits included on line 20b of your federal return.

Tax Tip: *Unlike the federal government, Arizona does not tax any social security or railroad retirement benefits. If you included social security or railroad retirement amounts on your federal return as income, subtract this amount from Arizona income.*

Line C14 - Agricultural Crops Contributed to Arizona Charitable Organizations

Arizona law allows a subtraction for qualified crop contributions made during 1995 to one or more charitable organizations. To take this subtraction, you must be engaged in the business of farming or processing agricultural crops. The crop must be grown in Arizona. Your contribution must be made to a charitable organization located in Arizona which is exempt from Arizona tax.

The subtraction is the greater of **80** percent of the wholesale market price or **80** percent of the most recent sale price for the contributed crop.

To determine if your crop contribution qualifies for this subtraction, see Arizona Department of Revenue Income Tax Procedure ITP 93-2. To get a copy of this procedure, call one of the help numbers listed on page 1 of these instructions.

Line C15 - Alternative Fuel Vehicles and Refueling Equipment

For taxable years beginning from and after December 31, 1993, Arizona law allows a subtraction for alternative fuel vehicles.

You may qualify to take this subtraction if you did any of the following.

1. Purchased a new alternative fuel vehicle for use in Arizona.
2. Converted a conventional fuel vehicle to an alternative fuel vehicle for use in Arizona.
3. Installed alternative fuel vehicle refueling equipment on your property in Arizona.

You may take a subtraction for purchasing a new alternative fuel vehicle. You may take a subtraction for converting a conventional fuel vehicle to an alternative fuel

vehicle. You may take a subtraction for installing an alternative fuel delivery system. You may also subtract some personal interest if your purchase or conversion was for your private non-commercial use. The total subtraction is the sum of the amounts allowed to be subtracted for each item.

To figure your subtraction complete Form 313. Enter the amount from Form 313, Part 1, line 28, here.

Line C16 - Certain Wages of American Indians

Enrolled members of American Indian tribes may subtract wages earned while living and working on their tribe's reservation. The federal government must recognize these tribes.

For more information, see Arizona Department of Revenue Income Tax Ruling ITR 91-3. To get a copy of this ruling, call one of the help numbers listed on page 1 of the instructions.

Line C17 - Income Tax Refund From Other States

You may subtract income tax refunds received from other states if both of the following apply.

1. You reported the refund as income on your federal return.
2. You did not deduct the taxes paid to the other state as an itemized deduction on a prior year Arizona return.

Line C18 - Other Subtractions From Income

Use line C18 if any of the following special circumstances apply. Attach your own schedule to the back of your return explaining any amounts entered here.

A. Distribution From Certain Retirement Accounts

If you were an Arizona resident before December 31, 1975, and one of the following applies, you may have a subtraction here.

Retirement Account Worksheet — Line C18

Calculate the subtraction by using the following worksheet:

Worksheet (Keep for your records)

1. Enter the contributions made during your Arizona residency and deducted on your federal return before December 31, 1975. _____
2. Enter any adjustments deducted on your Arizona returns for 1979 through 1994. If line 2 is more than line 1, stop here. You do not have an adjustment. _____
3. If line 2 is less than line 1, subtract line 2 from line 1 and enter the result. _____
4. Enter the distribution taxable on your federal return. Compare the amounts on lines 3 and 4 and enter the smaller amount as your allowable subtraction on line C18. _____

1. You are receiving distributions from your IRA account to which you were contributing before December 31, 1975.
2. You are receiving distributions from your self-employment qualified retirement plan to which you were contributing before December 31, 1975.

B. Previously Reported Gain on Decedent's Installment Sale

Prior Arizona law required acceleration of any unrecognized installment sale gain upon the death of a taxpayer. However, this acceleration could have been avoided by the posting of a bond. If acceleration was required, your federal adjusted gross income may include installment sale amounts already recognized on a decedent's final Arizona return. If your federal adjusted gross income includes such amounts, you may subtract that portion of the gain included on your federal return.

C. Estate or Trust Income

Enter on line C18 the amounts from federal Form 1041, Schedule K-1, included in your federal adjusted gross income.

If making an entry here, you must also make an entry on line B8, Additions to Income. Add the estate or trust income shown on Arizona Form 141, Schedule K-1, to your Arizona income.

D. Combat Pay

Members of the U.S. armed forces receiving combat pay may subtract combat pay included in their 1995 federal adjusted gross income.

E. Federally Taxable Arizona Municipal Interest

Enter the amount of any interest income received on obligations of the State of Arizona, or any political subdivisions of Arizona that is included in your Arizona gross income. Do not enter any Arizona municipal interest which is exempt from federal taxation and not included in your federal adjusted gross income.

F. Adoption Expenses

You may take this subtraction only in the year the final adoption order is granted. Enter the lesser of the total of the following adoption expenses or \$3,000. When figuring your subtraction, you may include expenses incurred in prior years.

The following expenses are qualified adoption expenses.

1. Nonreimbursed medical and hospital costs.
2. Adoption counseling.
3. Legal and agency fees.
4. Other nonrecurring costs of adoption.

If filing separately, you may take the entire subtraction, or you may divide the subtraction with your spouse. However, the total subtraction taken by both you and your spouse cannot exceed \$3,000.

G. Qualified Wood Stove, Wood Fireplace, or Gas Fired Fireplace

Arizona law provides a subtraction for the purchase of a qualified wood stove, wood fireplace, or gas fired fireplace and non-optional equipment directly related to its operation. You may subtract up to \$500 for the purchase and installation of a qualified wood stove, wood fireplace, or gas fired fireplace on your property located in Arizona. When you figure your subtraction, you may also include the purchase price and installation cost of any non-optional equipment directly related to its operation. When figuring your subtraction, do not include taxes, interest, or other finance charges in the purchase price and installation costs.

Arizona law also provides a subtraction for converting an existing fireplace to a qualified wood stove, wood fireplace, or gas fired fireplace and non-optional equipment directly related to its operation. You may subtract up to \$500 for converting an existing fireplace to a qualified wood stove, wood fireplace, or gas fired fireplace on your property located in Arizona. When you figure your subtraction, include the purchase price and the installation cost of the fireplace and any non-optional equipment directly related to its operation. Do not include taxes, interest, or other finance charges in the purchase price and installation costs.

A qualified wood stove or a qualified wood fireplace is a residential wood heater that was manufactured on or after July 1, 1990, or sold at retail on or after July 1, 1992. The residential wood heater must also meet the U.S. Environmental Protection Agency's July 1990 particulate emissions standards.

A qualified gas fired fireplace is any device that burns natural or liquefied petroleum gas as its fuel through a burner system that is permanently installed in the fireplace. The conversion of an existing wood burning fireplace to noncombustible gas logs that are permanently installed in the fireplace also qualifies as a gas fired fireplace.

H. Claim of Right Adjustment for Amounts Repaid in Prior Taxable Years

You must make an entry here if all of the following apply.

1. During a year prior to 1995 you were required to repay amounts held under a claim of right.
2. You computed your tax for that prior year under Arizona's claim of right provisions.
3. A net operating loss or capital loss was established due to the repayment made in the prior year.
4. You are entitled to take that net operating loss or capital loss carryover into account when computing your 1995 Arizona taxable income.
5. The amount of the loss carryover allowed to be taken into account for Arizona purposes is more than the amount included in your federal income.

Enter the amount by which the loss carryover allowed for the taxable year under Arizona law is more than the amount included in your federal adjusted gross income.

I. Other Adjustments

Other special adjustments may be necessary for depreciation or amortization of pollution control devices, recycling materials equipment, or other items. Remember, you may only subtract those items authorized by statute. Call one of the help numbers listed on page 1 of these instructions if you have any questions concerning subtractions from income.

Line C19 - Total Subtractions

Add lines C10 through C18. Enter the total here and on the front of your return on line 18.

Itemized Deduction Adjustments

Prior to completing Part D, you must complete a federal Form 1040, Schedule A.

Generally, the itemized deductions allowed for Arizona are those itemized deductions allowable under the Internal Revenue Code.

In some cases, the itemized deductions allowed for Arizona will be different from the amount allowable under the Internal Revenue Code. The itemized deductions allowed for Arizona can differ if any of the following apply.

1. You are deducting medical and dental expenses.
2. You are deducting gambling losses while claiming a subtraction for Arizona lottery winnings.
3. You are claiming the credit for property taxes paid by a qualified defense contractor.
4. Your deductions allowable under the Internal Revenue Code include items allocable to income excluded from your Arizona taxable income.

If any of the above items apply to you, complete a federal Form 1040 Schedule A and then complete Part D as instructed below. Skip Part D if the above items do not apply to you.

Lines D20 through D24

Skip lines D20 through D24 if you are **not** deducting medical and dental expenses.

Arizona allows a larger medical deduction than is allowed for federal purposes. For Arizona purposes, you may deduct all of your medical and dental expenses.

Line D20

Enter on line D20, the total of your medical and dental expenses after you reduce these expenses by any payments received from insurance or other sources. If self-employed, do not include any amount paid for health insurance that you deducted in computing your federal adjusted gross income. The medical and dental expenses for Arizona purposes are the same as for federal purposes.

Line D21

Enter any amount of medical and dental

expenses included on line 20 which were paid from your individual medical savings account.

Complete lines D22 through D24 as instructed on the form.

Lines D25 through D29

Skip lines D25 through D29 if you are not deducting gambling losses.

Wagering losses can be deducted only to the extent of wagering gains. If you have reduced the amount of wagering gains included in your Arizona gross income by the subtraction allowed for Arizona lottery winnings, you may have to adjust your deduction for gambling losses.

Complete lines D25 through D29 as instructed on the form.

Line D30

Skip Line D30 if you are not a claiming the credit for property taxes paid by a qualified defense contractor.

If you are a qualified defense contractor, you cannot claim both a deduction and a credit with respect to the same property taxes paid.

Line D31

Complete line D31 if any amounts on federal Schedule A are for expenses allocable to income not subject to Arizona income tax.

Expenses allocable to income excluded from your Arizona taxable income would include:

1. Interest or other related expenses incurred to purchase or carry U.S. obligations the income from which is exempt from Arizona income tax.
2. State taxes paid to other states for prior years if you were not an Arizona resident for that prior year.
3. Employee business expenses attributable to income excluded from your Arizona taxable income.

This list is not all inclusive. There may be other items for which you cannot take a deduction.

Enter the amount of expenses deductible on federal Schedule A which are allocable to income not subject to Arizona income tax.

Lines D32 Through D37

Complete lines D32 through D37 as instructed on the form.

Different Last Names

If you have filed an Arizona tax return within the past four years with a different last name, enter your prior last name(s) in part E.

Totaling Your Income

Line 11 - Federal Adjusted Gross Income

You must complete your federal return before you enter an amount on line 11. Even if not filing a federal return, you must complete a 1995 federal return to determine your federal adjusted gross income.

Arizona uses federal adjusted gross income as a starting point to determine Arizona taxable income. Your federal adjusted gross income is your Arizona gross income.

ALERT: *If your Arizona gross income is greater than \$75,000, you may need to make estimated payments. See "Do You Need to Make Estimated Payments" instructions on page 3.*

Line 12 - Additions to Income

Enter the amount from line B9, page 2, of your return.

Line 13 - Amounts Received From an Individual Medical Savings Account

For information on individual medical savings accounts, see the department's individual medical savings account brochure. To get a copy of this brochure, call one of the help numbers listed on page 1 of these instructions.

You must include amounts received from an individual medical savings account here if any of the following three situations apply.

1 - Withdrawals

You must make an entry here if both of the following apply.

1. You withdrew money from your individual medical savings account during 1995.
2. You did not deposit the amount withdrawn into another individual medical savings account within 60 days of the withdrawal.

Enter the amount withdrawn here. Do not enter any qualified medical payments or reimbursements made by the plan. Such payments or reimbursements are not withdrawals.

2 - Transfers or Distributions Received Under the Terms of a Legal Separation or Dissolution of Marriage

You must make an entry here if all of the following apply.

1. You received a transfer or distribution from your spouse's or former spouse's individual medical savings account.
2. The transfer or distribution was required under the terms of a legal separation or dissolution of marriage.
3. You did not deposit the full amount of the transfer or distribution into another individual medical savings account within 60 days of the transfer or distribution.

If the above apply, enter the amount you received from the transfer or distribution here.

3 - Change in Employment

You must enter here the amount received from your individual medical savings account if you changed employers during 1995 and all of the following apply.

1. Your former employer was the trustee of your individual medical savings account.
2. Your former employer would not retain the funds in your account.
3. Your former employer closed your account and mailed you a check for the amount in the account.

4. You did not deposit the amount of that check into another medical savings account within 60 days of receiving the check.

Line 18 - Subtractions From Income

Enter the amount from line C19, page 2, of your return.

Line 19 - Deposits and Employer Contributions Into Individual Medical Savings Accounts

For information on individual medical savings accounts, see the department's brochure on individual medical savings accounts. To get a copy of this brochure, call one of the help numbers listed on page 1 of these instructions

Deposits Made Into Your Individual Medical Savings Account

For 1995, you may subtract up to \$4,000 of eligible deposits made into your individual medical savings account.

If you and your spouse each have an individual medical savings account, you may each subtract up to \$4,000 of allowable deposits. The total subtraction may be up to \$8,000 if both you and your spouse did not make deposits for the same dependents.

Example:

A husband and wife each establish an individual medical savings account. They have four children. During 1995, the husband deposited \$2,000 into his account for himself plus an additional \$2,000 for two of the children. The wife deposited \$2,000 into her account for herself plus an additional \$2,000 for the other two children. During 1995, this couple made eligible deposits of \$8,000 into their individual medical savings accounts. Based on the facts in this example, this couple would enter \$8,000 on line 19.

Eligible deposits include the following.

1. Deposits you made into your individual medical savings account.
2. Contributions your employer made to your individual medical savings account.

You can subtract employer contributions only to the extent included in your federal adjusted gross income.

Employer Contributions Made to Employee Individual Medical Savings Account

If you are an employer, you may subtract the amount contributed to your employees' individual medical savings accounts. These contributions can be subtracted only to the extent not deductible for federal income tax purposes. Enter these contributions here.

Line 20 - Subtraction of Federal Retirement Contributions

This line applies only to individuals who were civilian employees of the United States Government during 1995. The Arizona Court of Appeals ruled that the Arizona statute which effectively taxes federal employees' contributions to federal retirement plans violates the doctrine of intergovernmental tax immunity. Both the plaintiffs and the state have filed requests for reconsideration of the case with the Arizona Court of Appeals. Therefore, the issue is not yet settled.

Line 20 is provided to alert you to a remedy available to you under Arizona law. On your 1995 return, you have two options.

Option #1

You may subtract the amount of contributions to your retirement plan that was withheld from your wages paid by the federal government. Enter on line 20 the 1995 amount of such contributions included in your federal adjusted gross income. If you choose this option and the courts ultimately decide that it is legal for the State of Arizona to tax your retirement contributions, you will owe additional tax and accrued interest. (Also, see **Protective Claim for Refund** below.)

Option #2

You may choose to ignore line 20. You may instead file the protective claim form. This form is in the front of this instruction booklet. Under this option you will pay tax on your contributions to the

federal retirement plan. You will also protect your rights to a credit or refund of this tax if the courts ultimately decide that is appropriate. The state will pay interest in this event.

Protective Claim for Refund

You can find this form in the front of this instruction booklet. This form is at the bottom of the page titled *Notice to Current And Former Federal Civilian Employees*. If you were a civilian employee of the United States government at any time during the years 1991 through 1995 you should complete this claim form. Submitting this claim form will protect your rights to tax relief for the years you were so employed. If you choose **option #2** above for 1995, you should also include 1995 in your claim. Claims for 1991 must be postmarked by April 15, 1996, to be valid. If you previously filed a protective claim for 1990 through 1994, only include 1995 on the claim form filed for 1995.

Please do not include the protective claim with your 1995 income tax return. Mail the claim form separately to the address indicated to ensure proper handling.

Figuring Your Tax

Line 23 - Itemized/Standard Deductions

You must decide whether to take the standard deduction or to itemize your deductions. Your Arizona income tax will be less if you take the larger of your standard deduction or your itemized deduction.

Your Standard Deduction

If your filing status is:	Your standard deduction is:
Single	\$ 3,600
Married filing separately	\$ 3,600
Married filing jointly	\$ 7,200
Head of household	\$ 7,200

Your Itemized Deduction

You may itemize deductions on your Arizona return even if you do not itemize deductions on your federal return. The itemized deductions allowed for Arizona are those itemized deductions allowable un-

der the Internal Revenue Code. However, the amount allowed for some deductions for Arizona purposes may be different from the amount allowable for federal purposes. Therefore, for Arizona purposes, you may be required to adjust the amounts shown on your completed federal Form 1040, Schedule A. See Part D of Arizona Form 140 to determine whether you must make any adjustments.

To determine your Arizona itemized deductions, complete a federal Form 1040, Schedule A. Then, if required, complete Part D of Arizona Form 140. If you are not required to complete Part D, enter the amount from federal Form 1040, Schedule A, on Form 140, line 23.

NOTE: If you itemize, you must attach a copy of the completed federal Schedule A to your Arizona return. If itemizing, check box 23 I.

Line 24 - Personal Exemptions

Your personal exemption depends on your filing status. If you checked filing status box 4 or 5, enter \$4,200. If you checked filing status box 6 or 7, enter \$2,100.

Line 26 - Taxable Income

Subtract line 25 from line 22 and enter the result. Use this amount to calculate your tax using Tax Rate Table X or Y or the Optional Tax Rate Tables.

Line 27- Tax Amount

Enter the tax from either Tax Rate Table X or Y or the Optional Tax Rate Tables.

NOTE: You cannot use the Optional Tax Rate Tables if any of the following apply.

1. You are single or married filing separately and your taxable income is \$20,000 or more. In this case, you must use Tax Rate Table X.
2. You are married filing jointly or head of household and your taxable income is \$40,000 or more. In this case, you must use Tax Rate Table Y.

Line 28 - Tax From Recapture of Credits From Arizona Form 301

Enter the amount of tax due from recapture of the environmental technology credit and/or the recycling equipment credit from Form 301, line 18.

Line 29 - Subtotal of Tax

Add lines 27 and 28.

Line 30 - Family Income Tax Credit

You may take the family income tax credit if you meet the following.

1. You are single or married filing separately and your Arizona gross income (line 11 of your Form 140) is \$10,000 or less.
2. You are married filing jointly or unmarried head of household, and your Arizona gross income (line 11 of your Form 140) is \$20,000 or less.

To figure your credit, complete the worksheet below.

Line 31 - Credits From Form 301

Complete line 31 if you can take any of the following credits.

1. **Defense Contracting Credit.** You may qualify for this credit if you are an Arizona Department of Commerce certified defense contractor who has qualified

increases in employment. This tax credit also includes a provision for a property tax credit. Use Form 302 to figure this credit.

2. **Enterprise Zone Credit.** You may qualify for this credit if your business in an Arizona enterprise zone had net increases in employment of qualified employees. Use Form 304 to figure this credit.
3. **Environmental Technology Credit.** You may qualify for this credit if your business incurred expenses in constructing a qualified environmental technology manufacturing facility. Use Form 305 to figure this credit.
4. **Military Reuse Zone Credit.** You may qualify for this credit if you have qualifying net increases in full-time employment within a military reuse zone. Use Form 306 to figure this credit.
5. **Recycling Equipment Credit.** You may qualify for this credit if your business has installed recycling material equipment. Use Form 307 to figure this credit.
6. **Credit for Taxes Paid to Another State or Country.** You may qualify for this credit if you paid tax to Arizona and another state on the same income. Use Form 309 to figure this credit.

7. **Solar Energy Credit.** You may qualify for this credit if you installed a solar energy device in your residence located in Arizona. Use Form 310 to figure this credit.

8. **Agricultural Water Conservation System Credit.** You may qualify for this credit if you incurred expenses to purchase and install an agricultural water conservation system in Arizona. Use Form 312 to figure this credit.

9. **Alternative Fuel Credit.** You may qualify for this credit if you purchased a new alternative fuel vehicle or alternative fuel refueling equipment. You may also qualify for this credit if you converted your conventional vehicle to operate as an alternative fuel vehicle. Use Form 313 to figure this credit.

10. **Underground Storage Tanks Credit.** You may qualify for this credit if you incurred expenses correcting a release of a regulated substance from an underground storage tank. To qualify for this credit, you must not have been liable or responsible for the corrective action as an owner or operator of the underground storage tank. Use Form 314 to figure this credit.

11. **Pollution Control Credit.** You may qualify for this credit if you purchased depreciable property used in a trade or business to reduce or prevent pollution. Use Form 315 to figure this credit.

12. **Construction Materials Credit.** You may qualify for this credit if you purchased construction materials for a building used in manufacturing, mining, or research and development. Your construction costs must have been more than five million dollars. Use Form 316 to figure this credit.

13. **Summer School and Jobs Credit.** You may qualify for this credit if you are an employer that has employed a qualifying student during the summer of 1995. Use Form 317 to figure this credit.

Family Income Tax Credit Worksheet — Line 30

1. a. If you checked filing status 4 or 5, is the amount on page 1, Form 140, line 11, \$20,000 or less?
If no, **STOP.** You do not qualify.
- b. If you checked filing status 6 or 7, is the amount on page 1, Form 140, line 11, \$10,000 or less?
If no, **STOP.** You do not qualify.
2. Enter the number of dependents you entered in box 10, page 1, Form 140. _____
3. Number of personal exemptions. If you checked filing status 4, enter the number 2 here. If you checked filing status 5, 6, or 7, enter the number 1 here. _____
4. Add lines 2 and 3. Enter the result. _____
5. Multiply the amount on line 4 by \$30. Enter the result. _____
6. If you checked filing status 4 or 5, enter \$120 here.
If you checked filing status 6 or 7, enter \$60 here. _____
7. Family income tax credit. Enter the lesser of line 5 or line 6. _____
Enter the amount from line 7 of the above worksheet on page 1, Form 140, line 30.

Compute your credit on the appropriate form. Then complete Form 301 and enter the amount from Form 301, line 33. The credits on line 31 cannot reduce your tax below zero. These credits are not refundable credits.

Attach Arizona Form 301, along with any supporting documents to your return.

Line 32 - Credit Type

If you entered an amount on line 31, write the form number(s) of the credit(s) from Arizona Form 301, Part II.

If you are claiming:	Write form number:
1. Defense Contracting Credit	302
2. Enterprise Zone Credit	304
3. Environmental Technology Credit	305
4. Military Reuse Zone Credit	306
5. Recycling Equipment Credit	307
6. Credit for Taxes Paid to Another State or Country	309
7. Solar Energy Credit	310
8. Agricultural Water Conservation System Credit	312
9. Alternative Fuel Credit	313
10. Underground Storage Tanks Credit	314
11. Pollution Control Credit	315
12. Construction Materials Credit	316
13. Summer School and Jobs Credit.	317

Line 33 - Total Credit

Add lines 30 and 31. Enter the result.

Line 34 - Total Tax

Subtract line 33 from line 29, but do not enter an amount less than zero. If line 33 is larger than line 29, enter zero on line 34.

Line 35 - Federal Retiree Credit

If you received a federal retiree Annual Credit Statement for 1995, enter the amount of credit shown on your 1995 Annual Credit Statement.

Line 36 - Balance of Tax

Subtract line 35 from line 34, but do not enter an amount less than zero. If line 35 is larger than line 34, enter zero on line 36.

Totaling Payments/Credits

Line 37 - Arizona Income Tax Withheld

Enter the Arizona income tax withheld shown on the Form(s) W-2 from your employer. Also enter the Arizona income tax withheld shown on your Form(s) 1099-R (distributions from pensions, annuities, etc.). Do not include any income tax withheld for another state. Attach the Form(s) W-2 and 1099-R to the front of your return.

NOTE: *You should receive your Form(s) W-2 no later than January 31. If you did not receive a Form W-2 or you think your Form W-2 is wrong, contact your employer.*

Line 38 - Arizona Estimated Tax Payments for 1995 and Amount Applied From 1994 Return

Use this line if you did one of the following.

1. Made estimated income tax payments to Arizona for 1995.
2. Applied any of your refund from your 1994 Arizona return to 1995 estimated taxes for Arizona.

Enter the total amount paid and/or applied to 1995 taxes.

Line 39 - Amount Paid With 1995 Extension Request (Form 204)

Use this line to report the payment you sent with your extension request.

Line 40 - Property Tax Credit

You may take the property tax credit if you meet **all** the following.

1. You were either 65 or older in 1995 or receiving SSI Title 16 income from the Social Security Administration.

NOTE: *This is not the normal Social Security disability.*

2. You were an Arizona resident for the full year in 1995.
3. You paid property tax on your Arizona home in 1995. You paid rent on taxable property for the entire year or you did a combination of both.
4. If you lived alone, your income from all sources was under \$3,751. If you lived with others, the household income was under \$5,501.

Complete Form 140PTC to figure your credit. Enter the amount from Form 140PTC, line 15.

Attach Form 140PTC to your return.

Tax Tip: *To claim a property tax credit, you must file your claim or extension request by April 15, 1996.*

Figuring Your Overpayment or Tax Due

Line 41 - Total Payments

Add lines 37 through 40. Enter the total here.

Also, do the following if you computed your 1995 tax under Arizona's claim of right provisions.

1. Write "ARS § 43-1029" and the amount of the prior year tax reduction in the space to the left of your total payment amount.
2. Include the credit for the prior year tax reduction in the total entered on line 41.
3. Attach a schedule explaining the amounts repaid and the computation of the prior year tax reduction.

For more information on Arizona's claim of right provisions, see Individual Income Tax Procedure ITP 95-1.

Line 42 - Tax Due

If line 36 is more than line 41, you have tax due. Subtract line 41 from line 36. Skip lines 43, 44, and 45.

Line 43 - Overpayment

If line 41 is more than line 36, subtract line 36 from line 41. Complete lines 44 and 45.

Line 44 - Amount of line 43 to Apply to 1996 Tax

If you want all or part of your refund applied to next year's estimated taxes, enter that amount.

Line 45 - Balance of Overpayment

Subtract line 44 from line 43 to determine your overpayment balance before voluntary contributions and any estimated payment penalty.

Making Voluntary Contributions

You can make voluntary contributions to each of the funds shown below. A contribution will reduce your refund or increase the amount due with your return.

You cannot change original contributions later on amended returns.

Line 46 - Arizona Wildlife Fund

Contributions go to the Arizona Game, Nongame, Fish and Endangered Species Fund. This fund helps protect and conserve over 1,000 nongame species.

Line 47 - Child Abuse Prevention Fund

Contributions go to the Arizona Child Abuse Prevention Fund. This fund provides financial aid to community agencies for child abuse prevention programs.

Line 48 - Neighbors Helping Neighbors

Contributions go to the Neighbors Helping Neighbors Fund. This fund provides eligible recipients with emergency aid in paying energy utility bills, conserving energy and weatherization.

Line 49 - Special Olympics

Contributions go to the Special Olympics Fund. This fund helps provide programs of the Arizona Special Olympics.

Line 50 - Political Contributions

Contributions go to one of the following political parties:

Democratic
Libertarian
Republican

Line 51 - Political Party

Check the box for the political party to which you wish to give. Select only one party. If you do not select a political party, the department will return the amount on line 50.

Line 52 - Estimated Payment Penalty and Interest

You must have made Arizona estimated income tax payments during 1995 if you meet either of the following.

1. You reasonably expected your Arizona gross income to exceed \$75,000 in 1995.
2. Your Arizona gross income in 1994 was greater than \$75,000.

In projecting current Arizona gross income, you must use ordinary business care and prudence in determining if estimated tax payments are required.

If you were unable to project your 1995 Arizona gross income, you may request a waiver from the requirement to make estimated payments. The department may grant a waiver for one or more payment periods. You must request a waiver in writing. If requesting a waiver, attach your request to your return when you file. Your request must explain why you could not reasonably project your Arizona gross income for one or more payment periods during 1995.

The department may grant a waiver only if all of the following apply.

1. Your Arizona gross income in the preceding taxable year was less than \$75,000.

2. Using ordinary business care and prudence, you were unable to reasonably project your 1995 Arizona gross income.

You must attach Form 221 and your waiver request to your return.

If you report as a farmer or fisherman for federal purposes, you were not required to make estimated payments during 1995 if the following apply.

1. You are a calendar year filer. You file your Arizona return by March 1, 1996. You pay in full the amount stated on your return as payable.
2. You are a fiscal year filer. You file your Arizona return by the first day of the third month after the end of your fiscal year. You pay in full the amount stated on your return as payable.

If the above applies, check Box 2 on line 53 and do not complete Form 221.

An individual who fails to make the required estimated payments is subject to penalty and interest on any estimated tax payment which is late or underpaid.

Complete and attach Form 221, Underpayment of Estimated Tax by Individuals, to determine if any penalty and interest are due. Enter total penalty and interest from Form 221.

Line 53 -

Box 1 - Check box 1 if any of the following applies to you:

1. You checked the box on line 1 of Form 221.
2. You completed the annualized income worksheet on Form 221.
3. You elected to be treated as a nonresident alien on your federal income tax return. You made three estimated payment installments. Your first installment equaled 50 percent of the total of all of your required installments.

Box 2 - If you are an individual who for federal purposes reports as a farmer or fisherman, check box 2.

Box 3 - If you completed and attached Form 221, check box 3.

Line 54 - Individual Medical Savings Account Withdrawal Penalty

Withdrawals made from your individual medical savings account on any day other than the last business day of the year are subject to a ten percent (.10) penalty on the amount withdrawn. This penalty is not subject to abatement. You must remit this penalty with your income tax return filed for the year in which the withdrawal was made.

Multiply the amount of your withdrawal subject to penalty by ten percent (.10). Enter the result here.

The following withdrawals are not subject to the penalty.

1. Withdrawals made from your individual medical savings account on the last business day of the tax year.
2. Transfers or distributions you received from your spouse or former spouse under the terms of a legal separation or dissolution of marriage.
3. Your former employer closed your account and mailed you a check for the amount in the account.

Figuring Your Refund or Tax Due

Line 56 - Refund

Subtract line 55 from line 45. Enter your refund on line 56 and skip line 57.

If a refund is less than \$1, you must request your refund in writing. Attach your request to the front of your return.

If you owe money to any state agency and certain federal agencies, your refund may go to pay some of the debt. If so, the department will let you know by letter.

Tax Tip: *If you change your address before you get your refund, let the department know. Write to: Refund Desk, Arizona Department of Revenue, 1600 W Monroe, Phoenix AZ 85007. Include your social security number in your correspondence.*

Line 57 - Amount Owed

Add lines 42 and 55. Enter the amount you owe on line 57.

Make your check payable to Arizona Department of Revenue. Write your social security number on the front of your check or money order. Attach your check or money order to the front of your return where shown.

The department cannot accept checks or money orders in foreign currency. You must make payment in U.S. dollars.

Sign Your Return

You must sign your return. If married filing a joint return, both you and your spouse must sign even if only one had income. The department cannot send a refund check without proper signatures on the return.

Instructions Before Mailing

- Include your home telephone number and a daytime telephone number.
 - Double-check your **MATH**. A simple error can cause major delays in processing your return.
 - Make sure your **NAME** is on the return. If you received your return in the mail, use the preprinted label. **If the label is not correct, do not use it.**
 - If claiming **dependent** exemptions, write the number of dependents claimed on the **front** of the return. Also, write each claimed dependent's name, relationship and social security number on the back of the return.
 - Check the **boxes** to make sure you filled in all required boxes.
 - Attach **all** required documents.
1. Attach **Form(s) W-2 and 1099-R** to the **front** of the return.
 2. Write your social security number on the front of your check and attach your **check** to the **front** of the return.

The Department of Revenue may charge you \$25 for a check returned unpaid by your financial institution.

3. Attach Arizona Form 301 and your own schedules to the back of the return.
 4. If claiming a credit for taxes paid to another state or country, attach copies of the other state's or country's filed return.
 5. If you requested a filing extension, attach a copy of the federal or state extension request to the front of the return.
 6. If you itemize, be sure and attach a copy of the federal Schedule A.
 7. If you are claiming a property tax credit, attach a completed Form 140PTC and all required documents.
 8. If you have tax exempt interest income, be sure to attach a schedule listing the payors and the amount received from each payor.
- Sign your return and have your spouse sign if filing jointly.

Filing Your Return

Make a copy of your return and any accompanying schedules to keep for your records before mailing the return. (Remember to file the original, not a copy.)

To mail your return, use the envelope that came in your booklet. If it is missing, send the return to: Arizona Department of Revenue, PO Box 29002, Phoenix AZ 85038-9002.

Make sure you put enough postage on the envelope.

Finally, remember the U.S. Postal Service must postmark your return or extension request by midnight April 15. *Postage meter postmarks are unacceptable. Only U.S. Post Office postmarks qualify.*

How Long To Keep Your Return

You must keep your records as long as they are important for any Arizona tax law. Keep records that support an income or deduction item at least until the period of limitations expires for that return. (A period of limitations is the limited time after which no legal action can be brought.) Usually, this is four years from the date the return was due or filed. However, there are instances where the limitation period is longer than four years. For instance:

If unreported income is more than 25 percent of the income shown on the return, the period of limitations does not expire until six years after filing the return.

The department can bring an action at any time if a return is false or fraudulent, or you do not file a return.

There are other situations which could extend the limitation period longer than four or six years. Therefore, keep some records longer. For example, keep records which establish the basis of property for a period longer than four years. Additionally, keep net operating loss re-

records back to the date you incurred the loss. For additional information, get federal Publication 552, *Record Keeping For Individuals*.

When To Expect Your Refund

Expect your refund in the mail within 8 weeks of the date you filed. If you have not received your refund by that time, contact one of the help numbers listed on page 1 of these instructions.